



Consulting-Outsourcing-Capability Building



**Weave Services Limited presents:**

**Quality as a competitive advantage**

**Adding value to your operations by bringing Quality to the forefront**

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# Quality as a competitive advantage

## Fast Fashion may emphasize fast and low price, but Millennial buyers will bring Quality to the forefront

2015 became the first time the 'Millennial' generation outnumbered the amount of 'Baby Boomers' in the US<sup>1</sup>. This is a pivotal moment in the relationship between consumers and brands. **Predictions of the "end of disposable fashion" is already looming.**

### So what's next?

A recent BCG study<sup>2</sup> into buyer behavior patterns identified key changes in Millennial preferences. Millennials engage more personally than previous generations, seeing a brand as an extension to their own brand. Quality takes a center stage and is seen as an expected rather than a selling feature. 3 traits characterize Millennial's relationship with brands- Relevance, Reputation and Referrals.

- Brands must be **relevant** to the consumer and reflect her values. (Example: sustainable origins)
- Consumers take to social media 24/7 to show their joy or dismay in products and services creating a social **reputation** for brands

- Millennials crowd source from social media and get **referrals** from their friends rather than rely on adverts and traditional media sources.

**Quality is integral to these themes and since it is seen as expected, how can it be turned into a competitive advantage?**

This **paper aims to bring some insights on the hidden cost of quality** and present a **set of pragmatic solutions** to integrate quality to your supply chain strategy,



## Managing quality is seen as a sunk cost for most organizations

Quality is often viewed in its component pieces, with the **total cost often hidden** in different parts of the P&L. A holistic approach to quality shows that cost and waste can account for up to **15-20% of cost of products**<sup>3</sup>. This is significant, particularly when you consider that most of the quality cost is seen as 'sunk' cost and not as a source of competitive advantage. **Manufacturers are the most impacted**, accounting for 13% of the here-mentioned 20% with the most common root causes linked to re-work. **Retailers** are mostly impacted **when the products lands** in their warehouse and where a small set of issues can quickly escalate to high operating cost due to higher local wages.

Exhibit 1: Cost of Quality in Supply Chains

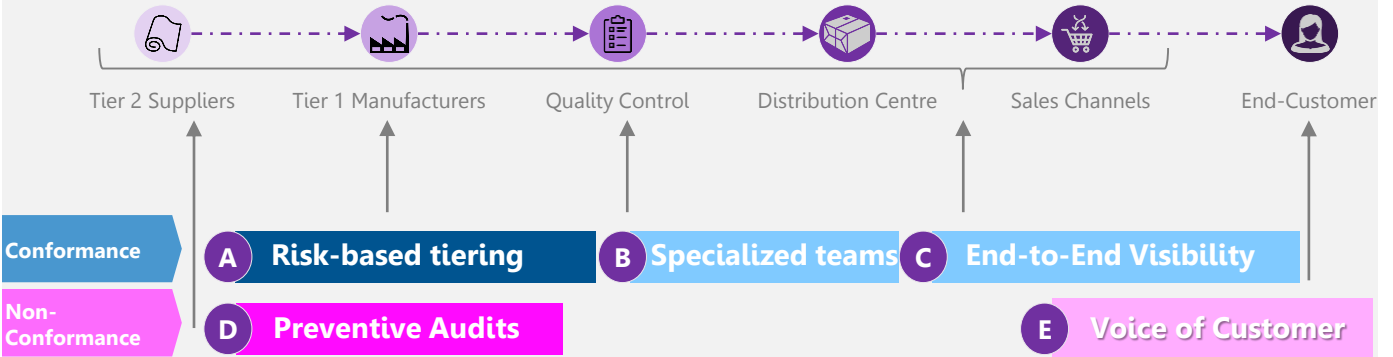


Source: 1 - <https://www.census.gov/data/developers/data-sets/popest-popproj.html>  
 2 - [https://www.bcgperspectives.com/content/articles/marketing\\_center\\_consumer\\_customer\\_insight\\_how\\_millennials\\_changing\\_marketing\\_forever/](https://www.bcgperspectives.com/content/articles/marketing_center_consumer_customer_insight_how_millennials_changing_marketing_forever/)  
 3 - The ASQ Quality Improvement Pocket Guide: Basic History, Concepts, Tools, and Relationships; Grace L. Duffy, ASQ Quality Press, 2013, 4 - Bheda, Cost of Quality in the Indian Apparel Industry, National Institute of Fashion technology, Government of India, 5 - Weave Analysis: Total Cost of Ownership

## Proactive quality management framework can enable distinct competitive advantage

Our framework aims to take an **End-to-End view** of the supply chain from **raw material** (Tier 2) to **end-customer**. Quality issues fall into two categories: **Conformance** related costs and **non-Conformance** related costs. One can focus on **5 major strategic levers** that typically result in high yield. A case study from a Watch Wholesaler/Manufacturer in Asia will further illustrate how these solutions can be turned into **quantitative financial impact**.

Exhibit 2: Value Chain for Manufactured Goods



Cost of Quality*		5 Strategic Levers	Descriptions	Impact areas
Conformance Costs	Testing/Auditing costs	<b>A</b> Apply risk-based vendor tiering and prioritize efforts	<ul style="list-style-type: none"> <li>Shift from <i>Control to process Audit</i></li> <li>Apply risk based ranking system i.e. Volume vs Quality Scoring based vendor ranking</li> <li>Increase problem solving and preventing activities with vendors</li> </ul>	<ul style="list-style-type: none"> <li>Audit resource cost saving</li> <li>Increase auditor value-add time</li> </ul>
	Prevention costs	<b>B</b> Decouple and create specialized teams	<ul style="list-style-type: none"> <li>Decouple quality assurance/reliability testing from vendor management</li> <li>Launch up-skilling programs to migrate workforce to specialist task</li> </ul>	<ul style="list-style-type: none"> <li>Reliability testing pass rate</li> <li>In-warranty return rate</li> </ul>
	Prevention costs	<b>C</b> Track End-to-End quality performance	<ul style="list-style-type: none"> <li>Standardize KPIs from Raw Material, Production to QC center</li> <li>Bring visibility across all levels of the organization i.e. From boardroom to shop floor</li> </ul>	<ul style="list-style-type: none"> <li>First yield pass rate</li> <li>1<sup>st</sup> order and re-order product lead time</li> </ul>
Non-Conformance Costs	Internal failures	<b>D</b> Start at the source: with Raw Material	<ul style="list-style-type: none"> <li>Invest in QA activities at the start of your supply chain i.e. components</li> <li>Perform root cause analysis to detect source of quality defects</li> <li>Support teams with analytical and lean management knowledge</li> </ul>	<ul style="list-style-type: none"> <li>Scrap &amp; waste product</li> <li>Product lead time</li> <li>First yield pass rate</li> </ul>
	External failures	<b>E</b> Bring timely Voice Of Customer into production's corrective action plans	<ul style="list-style-type: none"> <li>Capture defects information from customer returns</li> <li>Set timely feedback loop to factories to enable timely corrective actions to be planned in</li> </ul>	<ul style="list-style-type: none"> <li>In-warranty return rate</li> <li>Repair/replace ment cost</li> </ul>

\*Please refer to Exhibit 1

## CASE STUDY: Watch Retailer with Operations in China deploys Quality Strategy to drive performance

Faced with increasing returns from customers and operational bottlenecks at their Quality Control Center, our client found value in re-organizing its quality strategy across the 5 levers presented in our framework.

### 5 Strategic Levers

### Solutions implemented

### Impact identified

**A**

Apply Risk-based vendor tiering and prioritize efforts

Baseline

Post changes

**Quality Control**

- QC Inspections
- Lab Inspections
- Lab Testing

**Support**

- Reporting
- Planning
- Management

**Quality Assurance**

- Auditing
- Continuous Improvement
- Training

FTE  
REDUCTION

10%

**B**

Decouple and create specialized teams

**Specialize Quality teams based on areas of expertise:**

- Reliability testing: Sample testing and fault analysis
- QA/Vendor management: process QA and continuous improvements

EXPERT  
KNOWLEDGE

**C**

Track End-to-End quality performance

• Set up operational reports providing **root cause analysis**

• **Incorporate forward looking views** of capacity requirements to anticipate operational bottlenecks

WIP IN QC  
CENTER

10-15%

**D**

Start at the source: with Raw Material

• **Develop multi-echelon QA process** starting from raw material vendors, to IQM, IPQC and FGC at factory

LEAD TIME

25-30%

**E**

Bring timely VOC into production corrective actions

% of revenue spent on warranty

• **Collect customer returns/defect data from retail point of sales**

• Establish fast response channel to take corrective actions at vendors

IN-WARRANTY  
COST

~US\$14m

\*Solution not developed with client

## MAKE QUALITY A COMPETITIVE ADVANTAGE

Quality has a distinctive place in today's marketplace, underpinning much of the buying behaviors seen in upcoming generations i.e. Millennials.



## OPTIMIZE COST OF GOODS SOLD

Tackle the hidden costs associated with quality and start reaping financial benefits as well as side benefits such lead time improvements

### 5 steps to adopting a *quality mindset* inside your organization

By applying practical solutions to quality areas, retailers and manufacturers are able to impact their bottom line :

- STEP 1: Shift focus to key points in the production process starting with raw material
- STEP 2: Prioritize your efforts based on the risk to your business
- STEP 3: Create specialist teams, focus skills and tools on problem solving and preventive actions
- STEP 4: Create transparency, measure quality End-to-End and make it a boardroom discussion
- STEP 5: Listen to your customers and act timely to market feedback

To find out more about Quality as a competitive advantage, or more on Supply Chain Excellence , please contact Weave Services .

Source: 7 - <http://asq.org/quality-press/display-item/?item=H1443>

#### Our perspective:

- [Understanding read & react in a fast fashion context](#)
- [Regaining competitiveness in the Chinese footwear market](#)
- [Practical guide to data led supply chain transformation](#)

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